

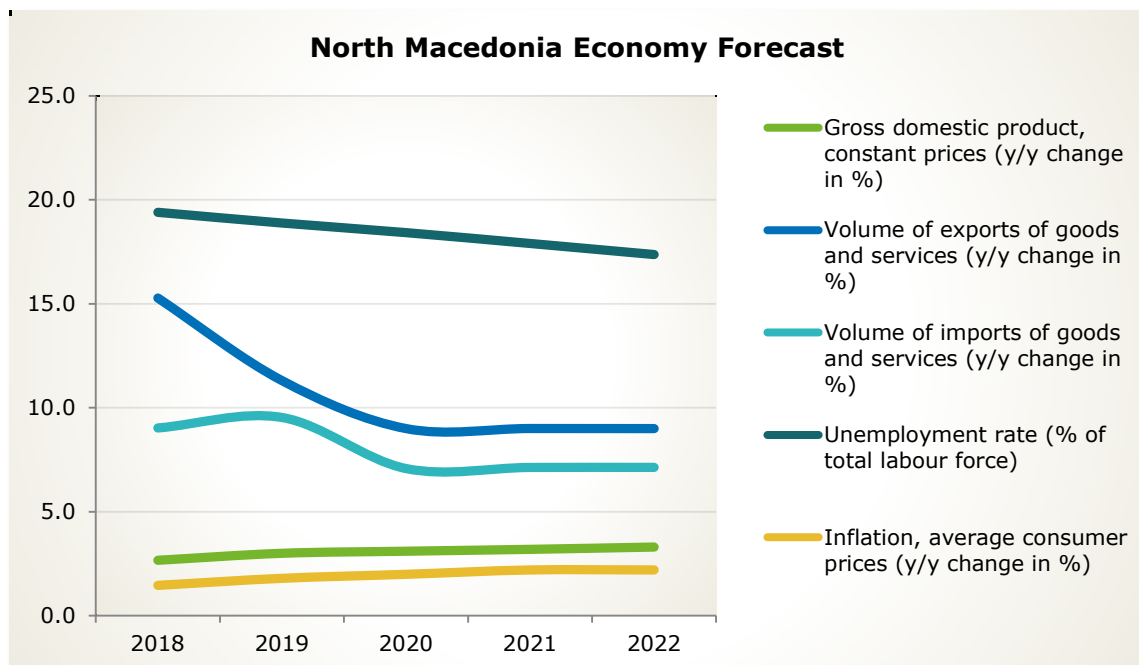
## **NORTH MACEDONIA ECONOMY REPORT** 2018

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## 1. MACROECONOMIC SNAPSHOT AND FORECAST

NORTH MACEDONIA – MACROECONOMIC SNAPSHOT AS OF 2018	
<b>GDP Growth</b>	2.7% y/y
<b>Industrial output</b>	5.4% y/y
<b>Industrial sales</b>	12.5% y/y
<b>Wholesale</b>	8.3% y/y
<b>Retail sales</b>	7.9% y/y
<b>Average annual inflation</b>	0.6%
<b>Unemployment rate</b>	20.7%
<b>Number of building permits</b>	-25.5% y/y
<b>Money supply growth</b>	11.8% y/y
<b>Household loans</b>	10.4% y/y
<b>MBI10 blue-chip index</b>	31.2% y/y
<b>Gross external debt</b>	EUR 7.908 bln
<b>Current account deficit</b>	EUR 31.9 mln
<b>Net FDI inflow</b>	EUR 624.5 mln
<b>Foreign trade deficit</b>	EUR 1.811 bln
<b>Number of foreign tourist overnights</b>	15.2% y/y



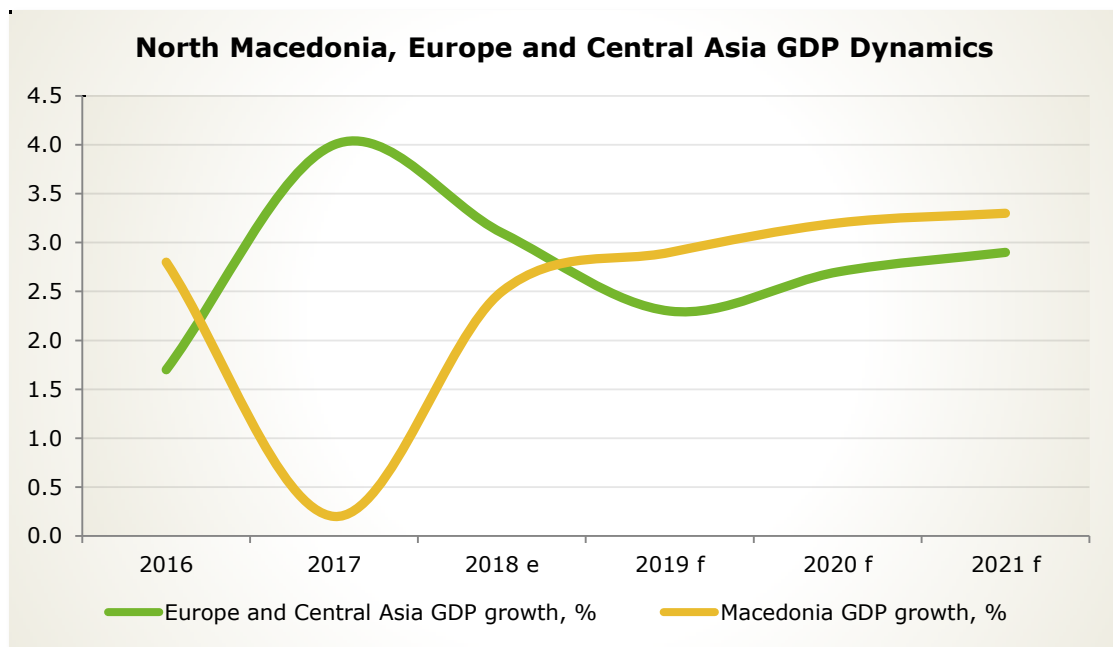
Source: International Monetary Fund (IMF) World Economic Outlook Database – April 2019

After experiencing a number of shocks in connection to the political crisis in the last two years, the economy of North Macedonia has been gradually recovering. IMF expects the economy to expand by 2.7 y/y in 2018, after GDP growth stalled in 2017. In the medium term, IMF expects the economy of North Macedonia to benefit from infrastructure and foreign

direct investment, continued improvement in labour market and strengthening of credit growth. In 2019, GDP will rise by 2.9% and further speed up to 3.2% in 2020 and 3.3% in 2022.

North Macedonia – GDP, Inflation, Current Account Balance and FDI Dynamics (y/y change in %)						
	2016	2017	2018 e	2019 f	2020 f	2021 f
Real GDP growth, at constant market prices, y/y change in %	2.8	0.2	2.7	2.9	3.2	3.6
Private Consumption	3.9	0.6	3.3	2.4	2.1	2.3
Government Consumption	-4.9	-2.5	6.2	1.0	0.8	0.5
Gross Fixed Capital Investment	-6.2	-8.7	-7.2	5.0	6.0	6.5
Exports, Goods and Services	9.1	8.1	15.3	7.5	8.1	8.2
Imports, Goods and Services	11.1	6.4	9.1	5.8	6.1	6.1
Real GDP growth, at constant factor prices (by sectors)	2.0	0.1	2.8	2.9	3.2	3.6
Agriculture	-0.4	-13.5	-5.0	1.8	1.5	1.5
Industry	-2.9	-1.0	2.2	5.5	5.9	6.4
Services	4.5	2.3	3.9	2.0	2.3	2.6
Inflation (Consumer Price Index)	-0.2	1.3	1.5	1.8	1.9	2.2
Current Account Balance (% of GDP)	-2.9	-0.8	-0.3	-1.7	-2.1	-1.8
Net Foreign Direct Investment (% of GDP)	3.3	1.8	5.8	4.4	4.6	4.8

Source: World Bank, Europe and Central Asia Economic Update, April 2019



Source: World Bank, Europe and Central Asia Economic Update, January 2019

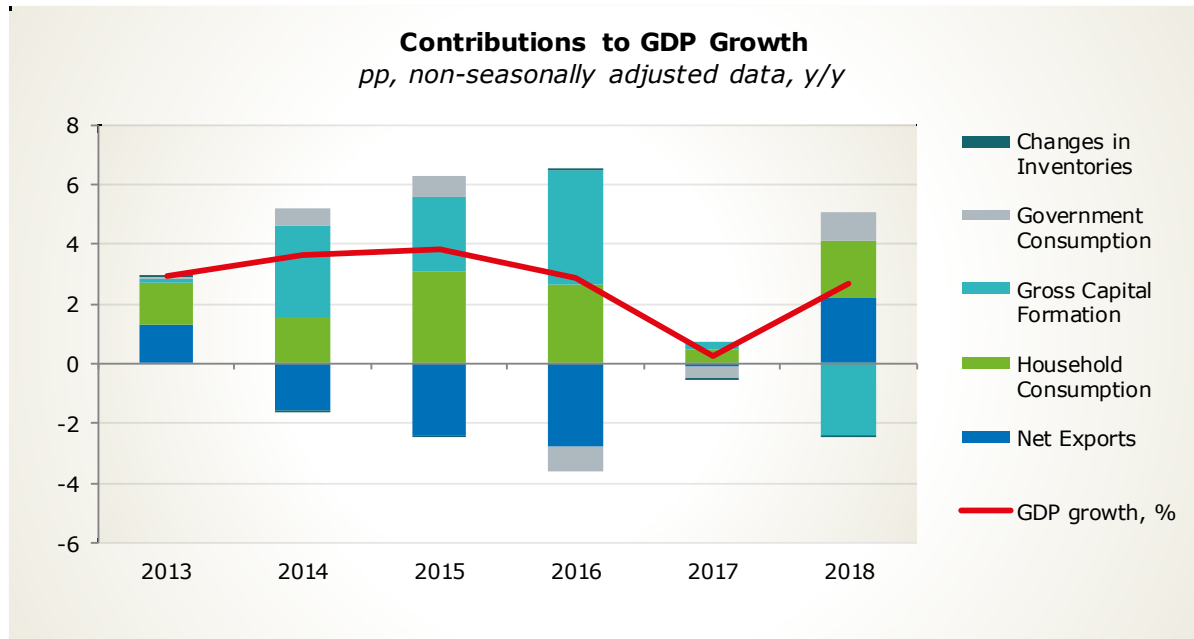
According to the World Bank estimates from January 2019, GDP growth is likely to come in at 2.9% in 2019 after the stalemate in 2017. This will be higher than the projected growth for Europe and Central Asia, of 2.3% in 2019.

## 2. REAL SECTOR

### 2.1. GROSS DOMESTIC PRODUCT (GDP)

#### GDP up 2.7% y/y in 2018

During 2018, the country's GDP increased by 2.7% y/y to MKD 448.0 bln according to preliminary data of the State Statistical Office of the Republic of North Macedonia (SSORM).

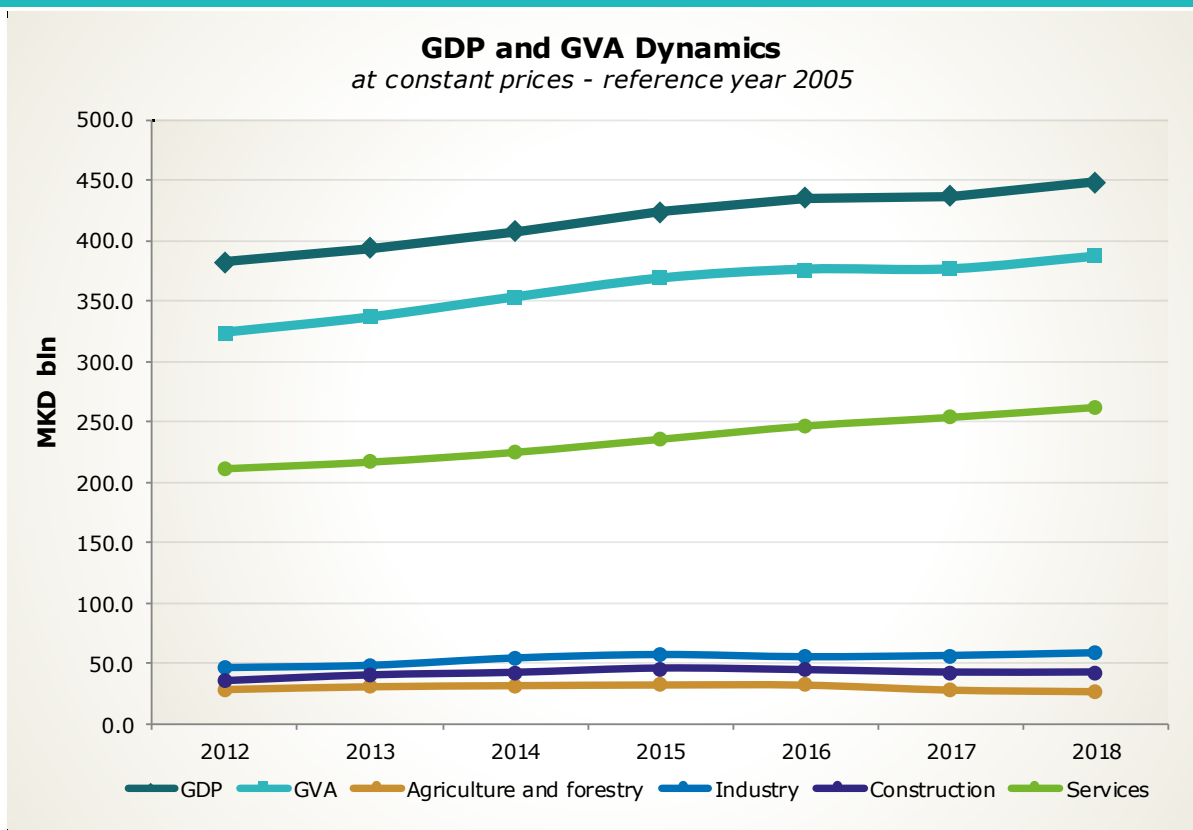


Source: SeeNews calculations; SSORM

Note: Non-additive data due to direct chain-linking of GDP and its components. Contribution of changes in inventories has been derived as a residual.

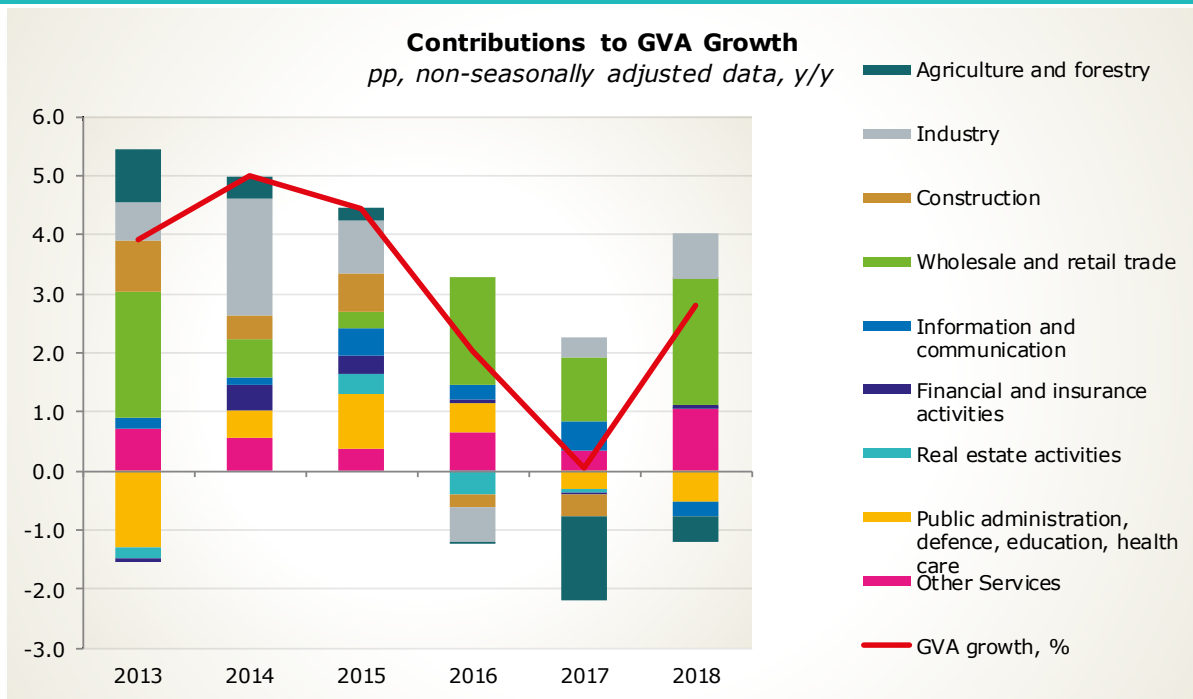
Final consumption, which accounted for 86.8% of the GDP, increased in value terms by 3.5% y/y to MKD 388.8 bln in 2018, while gross capital formation went down by 7.2%. Both exports and imports grew - by 15.3% and 9.0%, respectively.

The largest contributor to the overall GDP expansion in 2018 were net exports by 2.2 pp, followed by household consumption, adding 1.9 pp to the GDP growth in 2018. In the same time gross capital formation subtracted 2.4 pp from the GDP growth.



Source: SSORM

The gross value added (GVA) generated by the national economy increased in value by 2.8% y/y in 2018 and totalled MKD 387.1 bln. The agricultural sector registered a decrease of 5.0%. The gross value added of the industrial sector went up by 3.7% while construction inched up by 0.2% y/y. The services sector recorded a 3.3% rise, slicing a 67.8% share in the GVA, compared to 67.5% in the previous year.



Source: SeeNews Calculations; SSORM

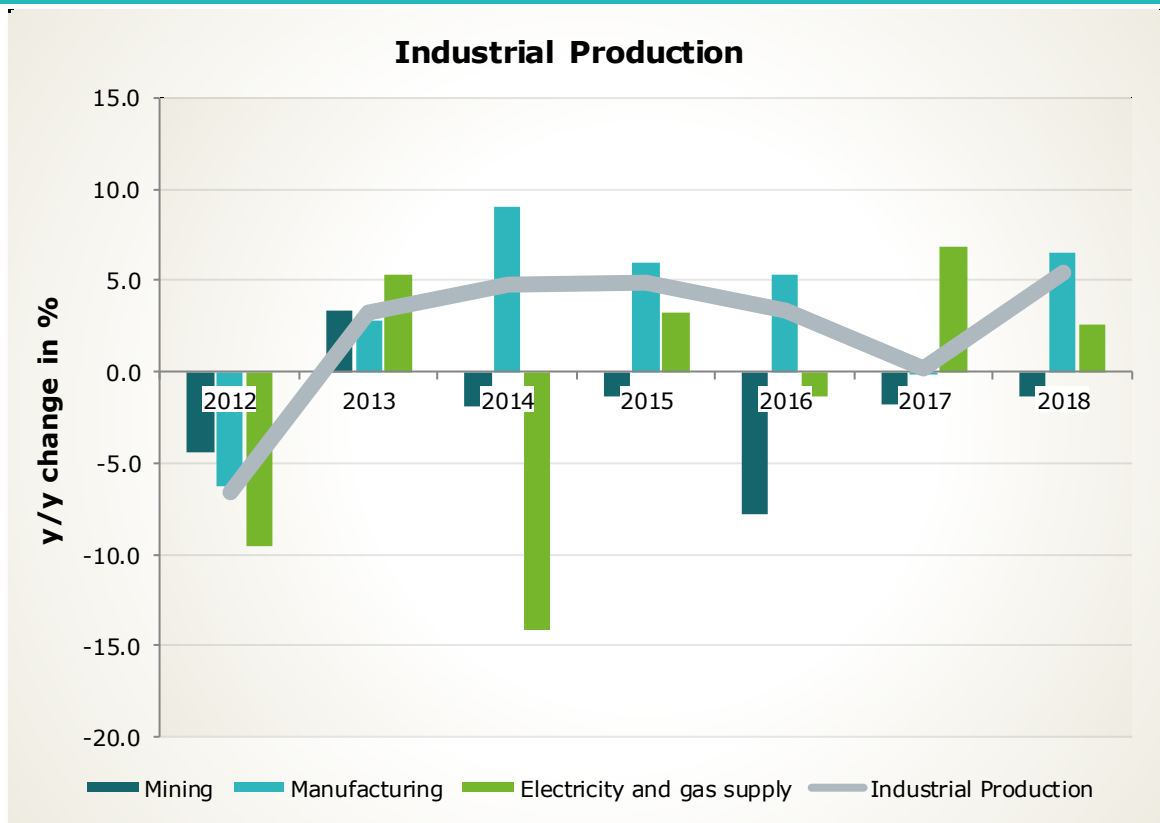
Note: Non-additive data due to direct chain linking of GDP and its components.

## 2.2. INDUSTRIAL OUTPUT

### Industrial output advanced by 5.4% y/y in 2018

Industrial output went up by 5.4% on the year in 2018, according to SSORM. The output of the manufacturing sector rose by 6.5% y/y. Production in the mining sector decreased by 1.4%, while the output of electricity and gas supply grew by 2.6% y/y.

The best performance in the manufacturing sector was reported in the segment manufacture of furniture, which surged by 26.4% y/y, as well as manufacture of motor vehicles, trailers and semi-trailers with 26.2% annual rise.



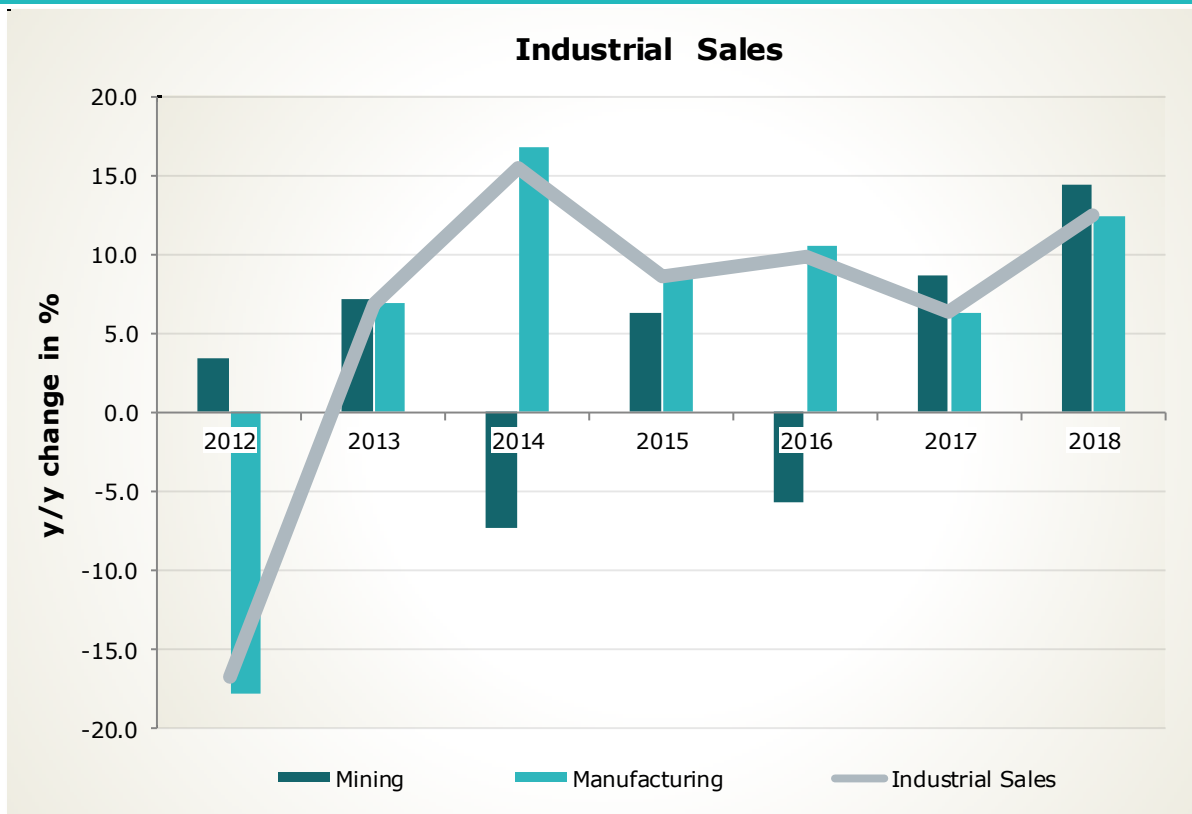
Source: SSORM

### 2.3. INDUSTRIAL SALES

#### *Industrial sales went up by 12.5% y/y in 2018*

Industrial sales rose by 12.5% y/y in 2018, according to SSORM data. Sales in mining grew by 14.4%, while sales in the manufacturing sector went up by 12.4% y/y.





Source: SSORM

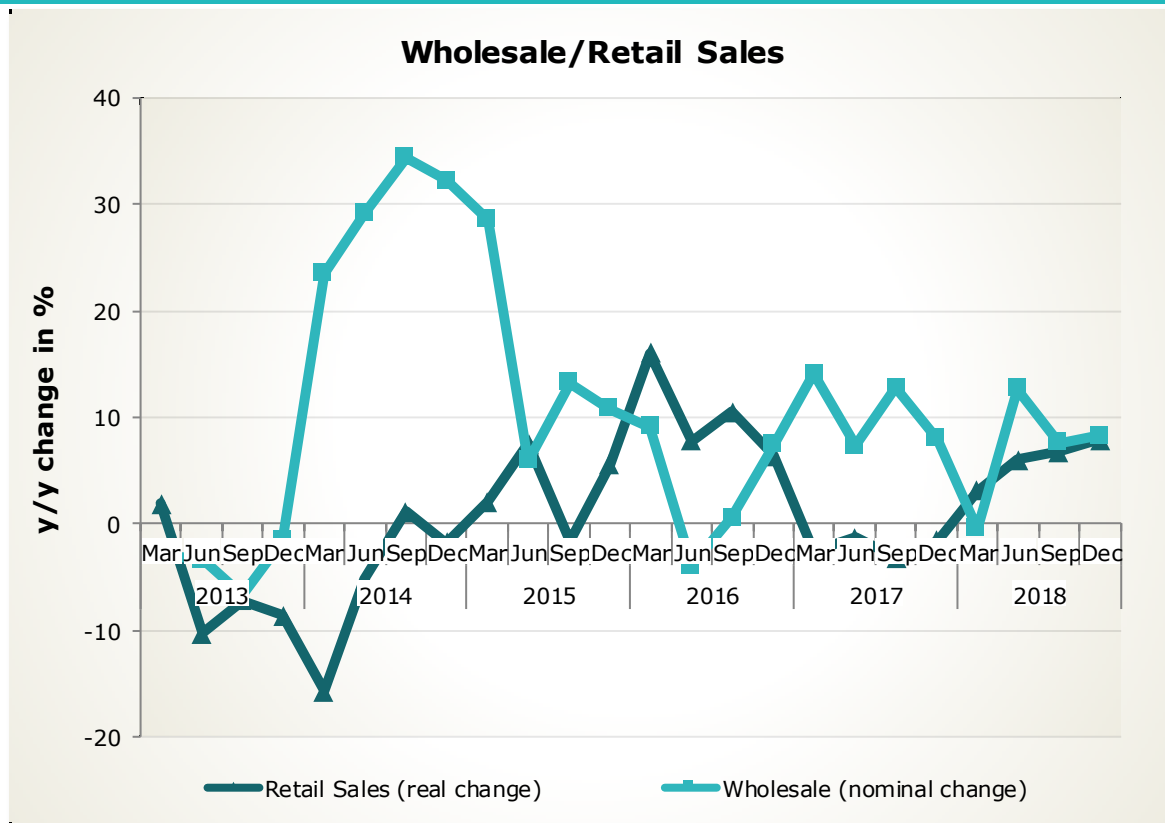
## 2.4. WHOLESALE/RETAIL

### Retail sales and wholesale expanded y/y in December 2018

Retail trade, except of motor vehicles and motorcycles, increased by real 7.9% y/y in December 2018, according to SSORM.

Retail sale of food, beverages and tobacco grew by 9.8% and retail trade (except automotive fuel) advanced by 8.1% y/y in December 2018.

The wholesale sector, excluding wholesale of motor vehicles and motorcycles, went up by 8.3% y/y in December 2018.



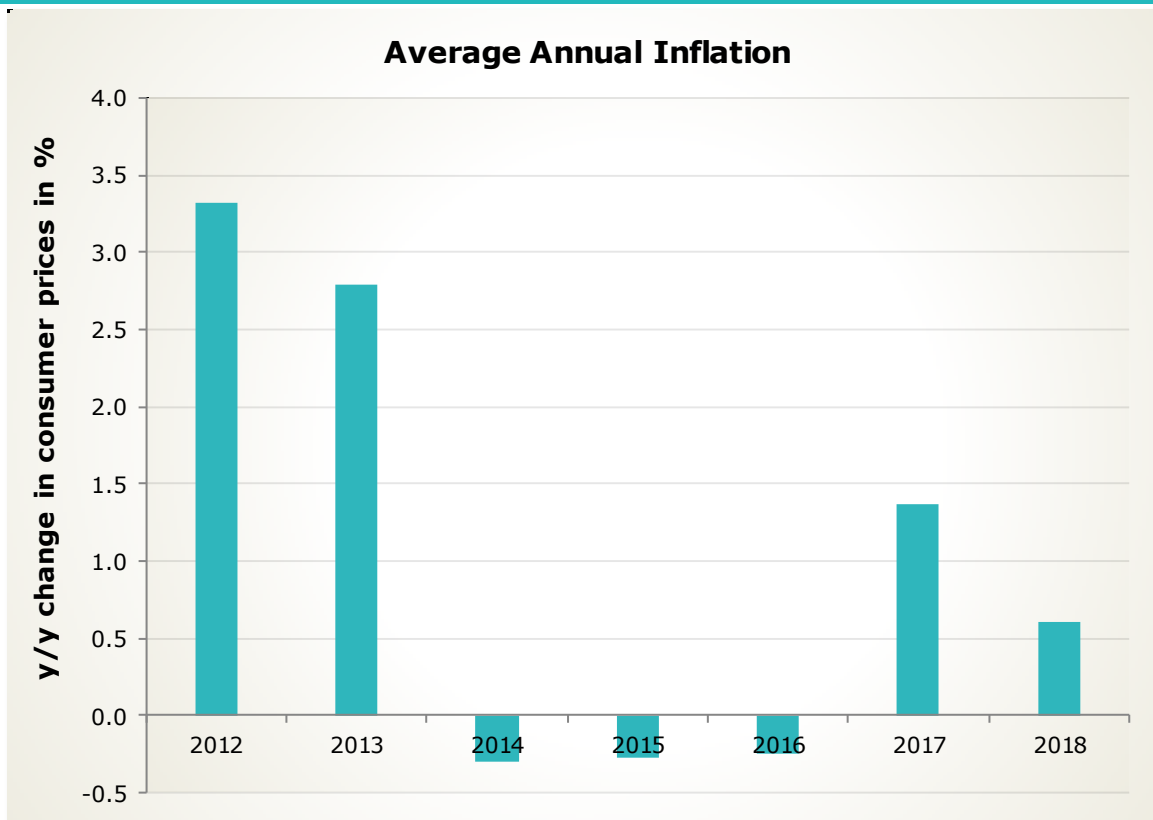
Source: SSORM

## 2.5. INFLATION

### North Macedonia registered 0.6% annual average inflation in 2018

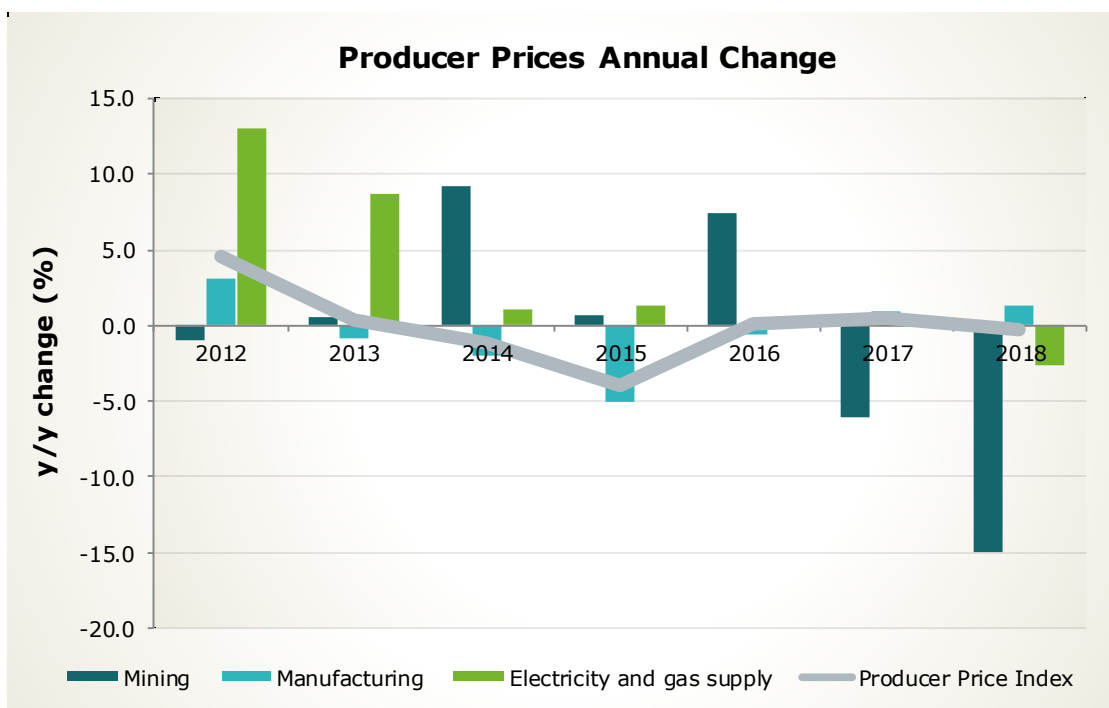
North Macedonia registered an average annual inflation of 0.6% in 2018, according to SSORM.

The inflation in the segment of alcoholic beverages and tobacco came in at 3.0% compared to 2017, while average prices in the transport sector went up by 2.8% y/y. Clothing and footwear prices went down by 0.7% y/y on average in 2018, while the CPI in housing, water, electricity, gas and other fuels inched down by 0.2% y/y.



Source: SSORM

Producer prices notched down by 0.3% in 2018 with prices of the manufacturing industry registering the only increase by 1.3%. The prices in the mining sector fell by 15.0% y/y. The PPI Index of electricity and gas supply also decreased by 2.6% y/y in 2018.



Source: SSORM

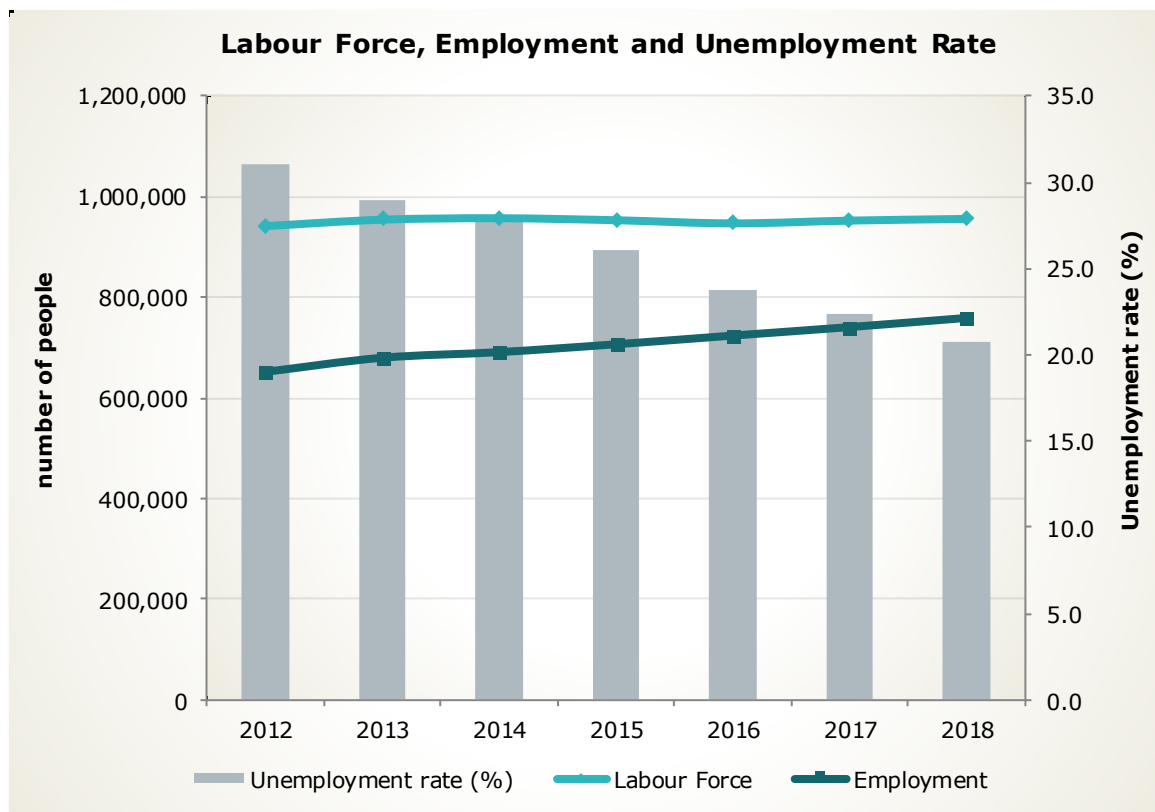
## 3. LABOUR MARKET

### *Unemployment rate down to 20.7%, wages grew 5.9% y/y in 2018*

Unemployment in North Macedonia narrowed to 20.7% of the total labour force in 2018, down from 22.4% a year earlier, according to data of SSORM.

Employed population aged 15 years and older counted 759,054 in 2018, up by 2.5% y/y.

Youth (population aged 15-24) unemployment rate went down 1.3 pp y/y, but remained high at 45.4%.



Source: SSORM

According to data of SSORM, the average monthly net salary in 2018 went up by 5.9% in annual terms to MKD 24,276.

#### 4. CONSTRUCTION AND REAL ESTATE

##### *The number of building permits decreased in 2018*

The number of building permits issued in North Macedonia in 2018 fell by 25.5% and totalled 1,589, according to SSORM. The building construction works value amounted to MKD 25.717 bln, down from MKD 29.929 bln a year earlier. The planned number of dwellings diminished to 7,248 from 7,939 in 2017.

#### 5. MONEY SUPPLY AND BANKING SYSTEM

##### 5.1. MKD EXCHANGE RATE

The average exchange rate of the MKD against the EUR decreased to MKD 61.5111 in 2018 from MKD 61.5743 in 2017, according to National Bank of the Republic of North Macedonia (NBRM) data.

<b>MKD Average Exchange Rate</b>			
<b>Foreign Currency</b>	<b>2018</b>	<b>2017</b>	<b>2016</b>
EUR	61.5111	61.5743	51.5950
USD	52.1226	54.6450	55.6860
GBP	69.5261	70.2932	75.4811
CHF	53.2700	55.4607	56.5116

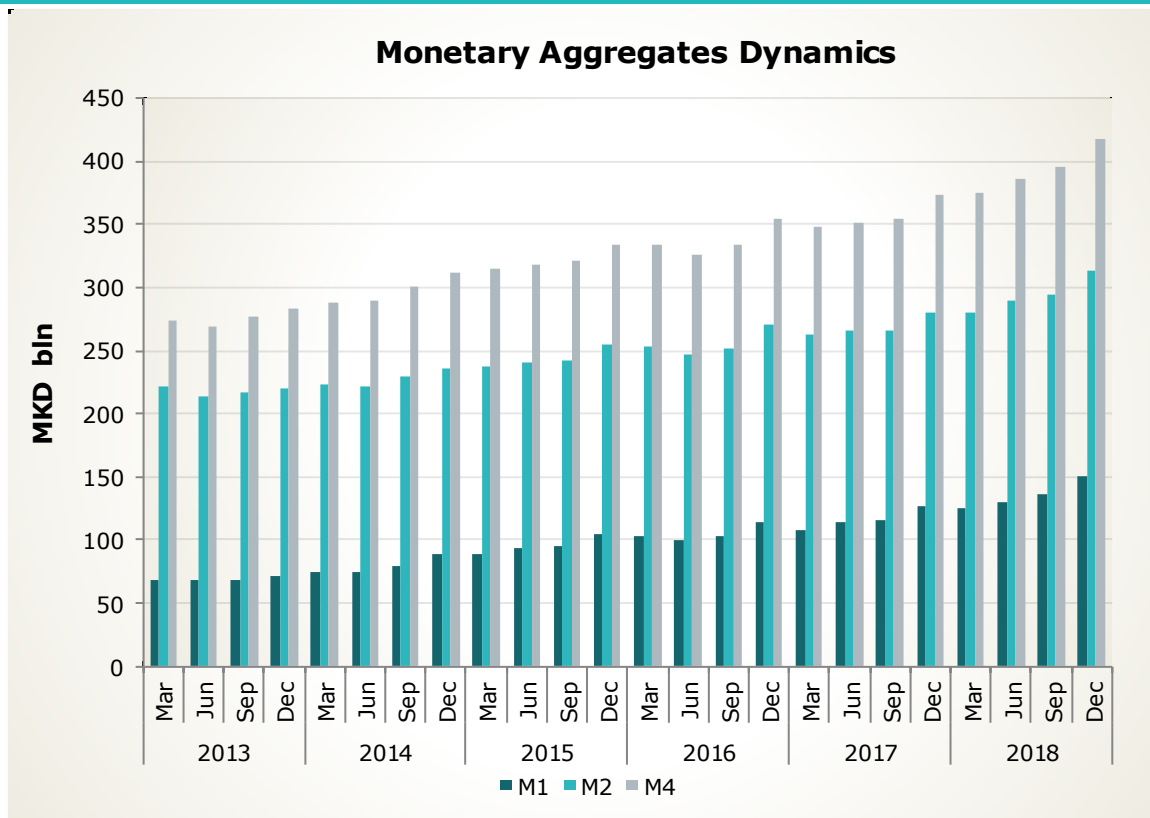
##### 5.2. MONETARY AGGREGATES

##### *Money supply growth was 11.8% y/y at end-December 2018*

Broad money (monetary aggregate M4) increased by 11.8% y/y and reached MKD 416.8 bln at the end of December 2018, according to data provided by NBRM.

The M2 money supply also grew, by 11.8% y/y, to MKD 313.8 bln.

Money aggregate M1, or narrow money, expanded by 18.7% to MKD 149.8 bln.

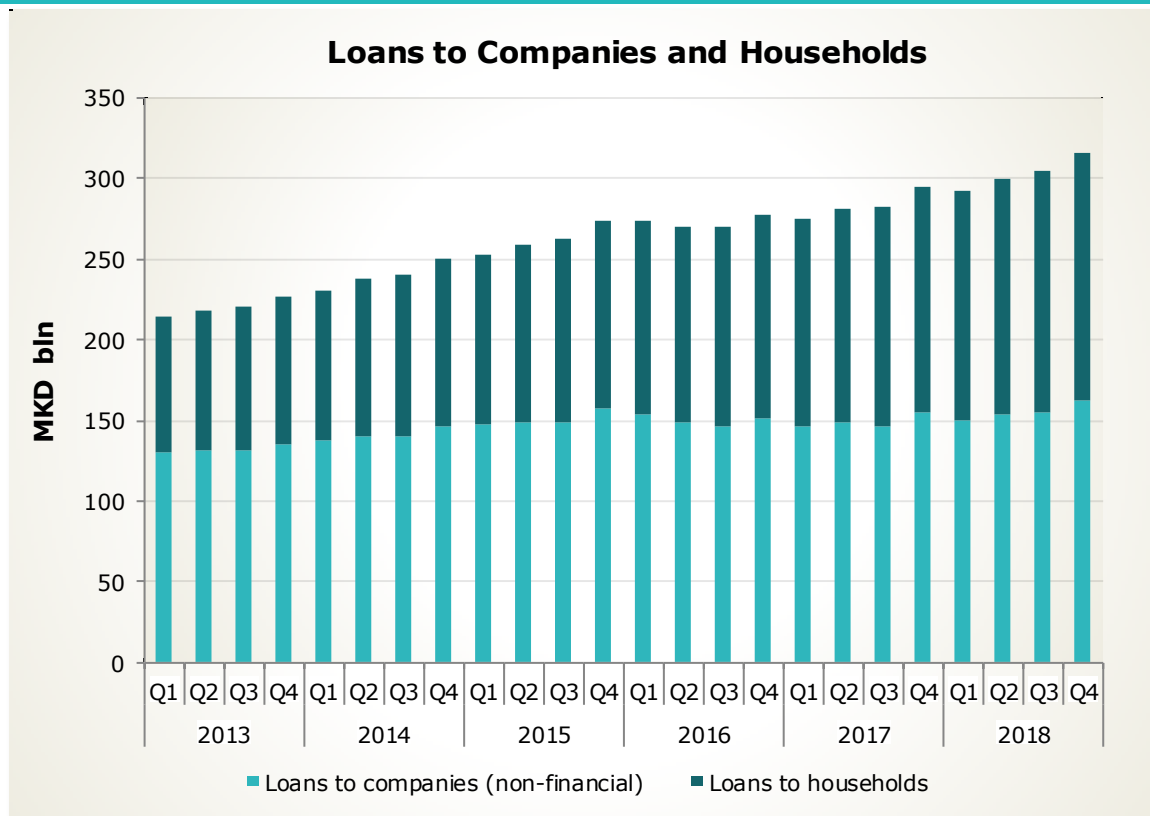


Source: NBRM

### 5.3. BANKING AND INSURANCE

#### Total loans increased by 7.6% y/y in Q4 2018

Loans to the non-government sector totalled MKD 320.1 bln in Q4 2018, up from MKD 297.6 bln in Q4 2017, according to NBRM. Household loans jumped by 10.4% to MKD 153.3 bln, while loans to non-financial corporations climbed by 4.7% to MKD 162.8 bln.



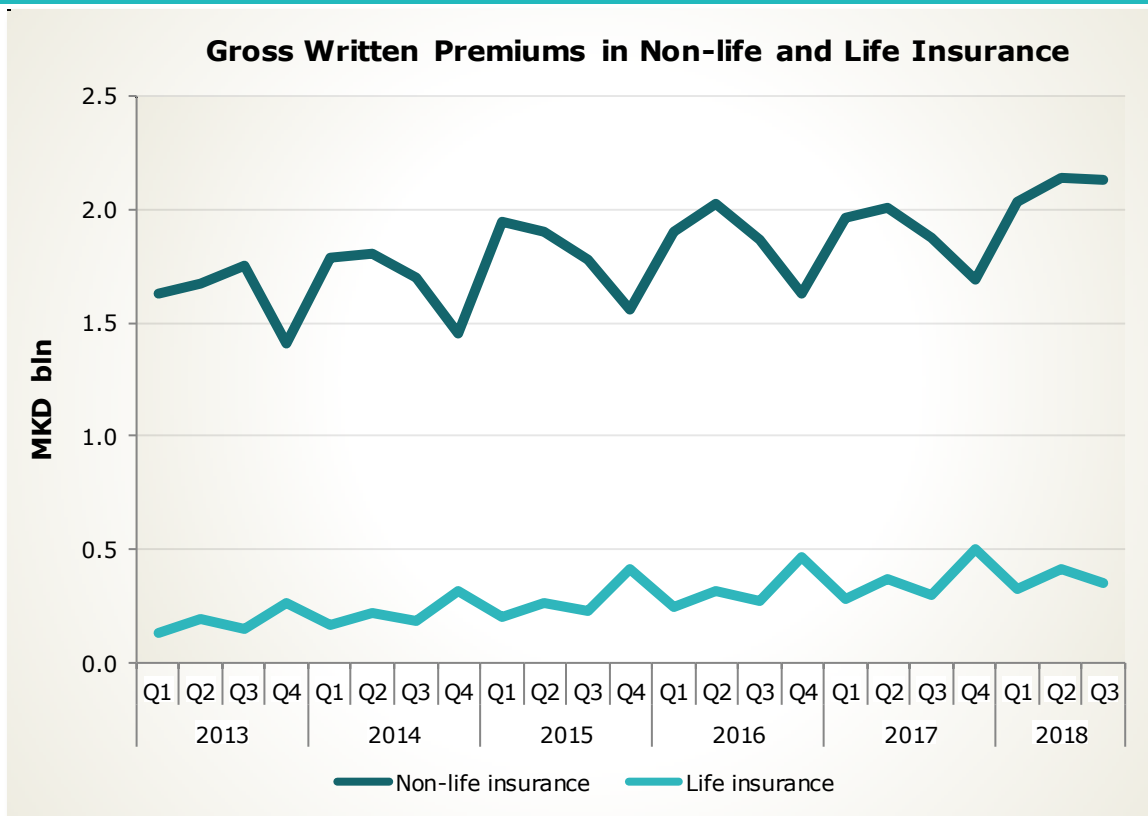
Source: NBRM

### Insurance premium income went up by 8.9% y/y in Jan-Sept 2018<sup>1</sup>

The total gross written premiums (GWP) of the non-life and life insurance companies stood at MKD 7.402 bln, up by 8.9% y/y, in the first nine months of 2018, according to North Macedonia's Insurance Supervision Agency (ASO).

The GWP of the non-life insurance market stood at MKD 6.307 bln, or by 7.8% more than in the same period of the previous year, while the life insurance market grew by 15.6% y/y to MKD 1.096 bln.

<sup>1</sup> Annual data for 2018 was not available at the time of preparation of the report.



Source: ASO

## 6. CAPITAL MARKETS

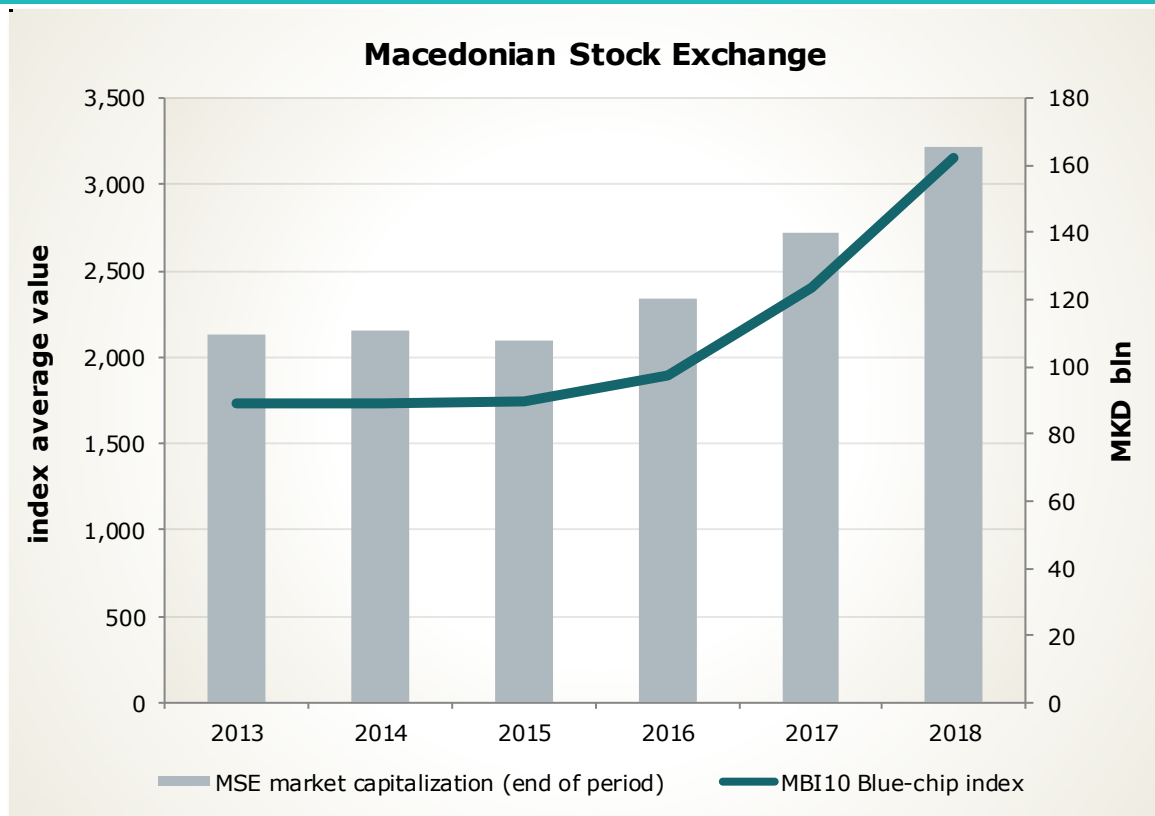
### Blue-chip MBI10 grew by 31.2% y/y in 2018

The average value of MBI10, the blue-chip index of the North Macedonian Stock Exchange (MSE), went up by 31.2% y/y to 3,156 points in 2018.

The total turnover on the MSE reached MKD 10.414 bln in 2018 versus MKD 4.738 bln in 2017.

The market capitalisation of MSE in the year grew to MKD 165.6 bln from MKD 139.8 bln in 2017.





Source: MSE

## 7. EXTERNAL SECTOR

### 7.1. FOREIGN DEBT

#### *The gross external debt went up y/y to EUR 7.908 bln in Q4 2018*

The gross external debt totalled EUR 7.908 bln in Q4 2018, increasing by 7.3% compared to the same period of 2017. In comparison to Q3 2018, the gross external debt marked a decrease of EUR 489.1 mln.

As of December 2018, long-term liabilities amounted to EUR 5.866 bln, or 74.2% of the total debt, and short-term liabilities totalled EUR 2.042 bln, equal to 25.8% of the total debt.

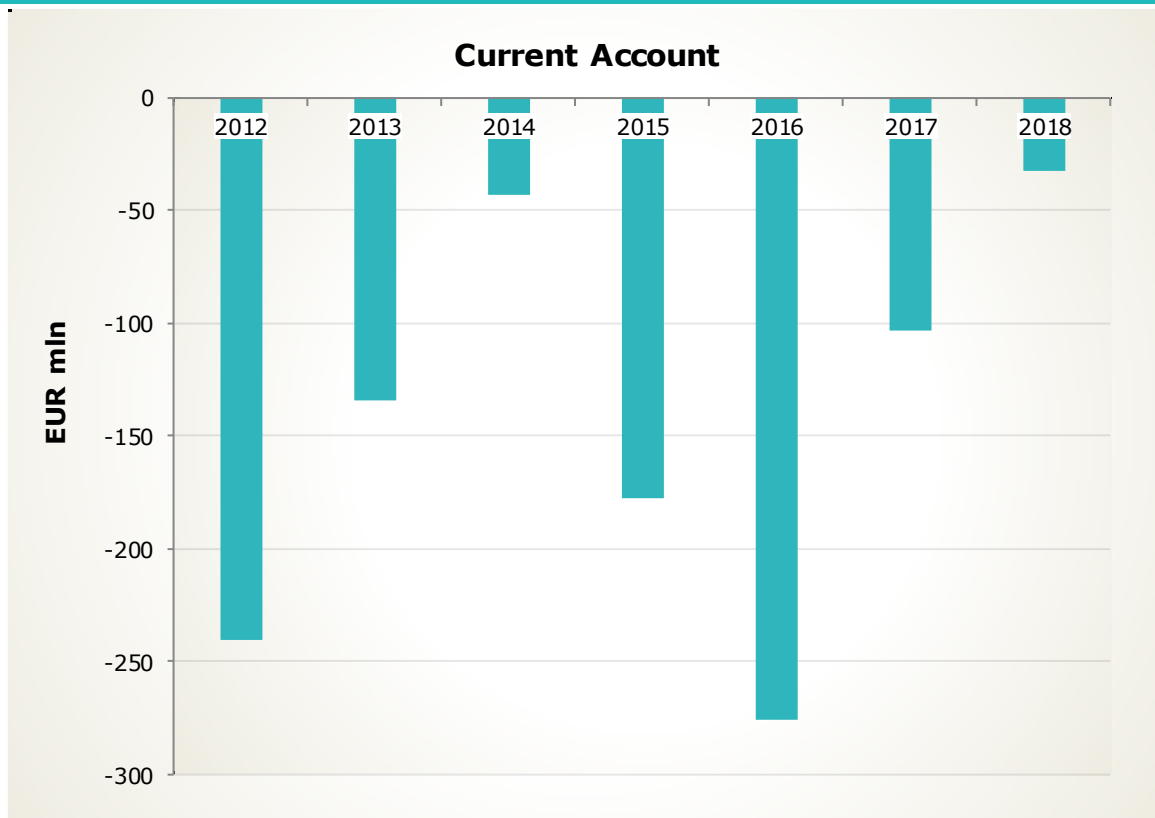


Source: NBRM

## 7.2. BALANCE OF PAYMENTS

### Current account deficit at EUR 31.9 mln in 2018

The current account deficit contracted to EUR 31.9 mln in 2018 from EUR 102.9 mln in 2017, according to the central bank statistics data. Secondary income rose by 5.4% y/y to EUR 1.797 bln in 2018.



Source: NBRM

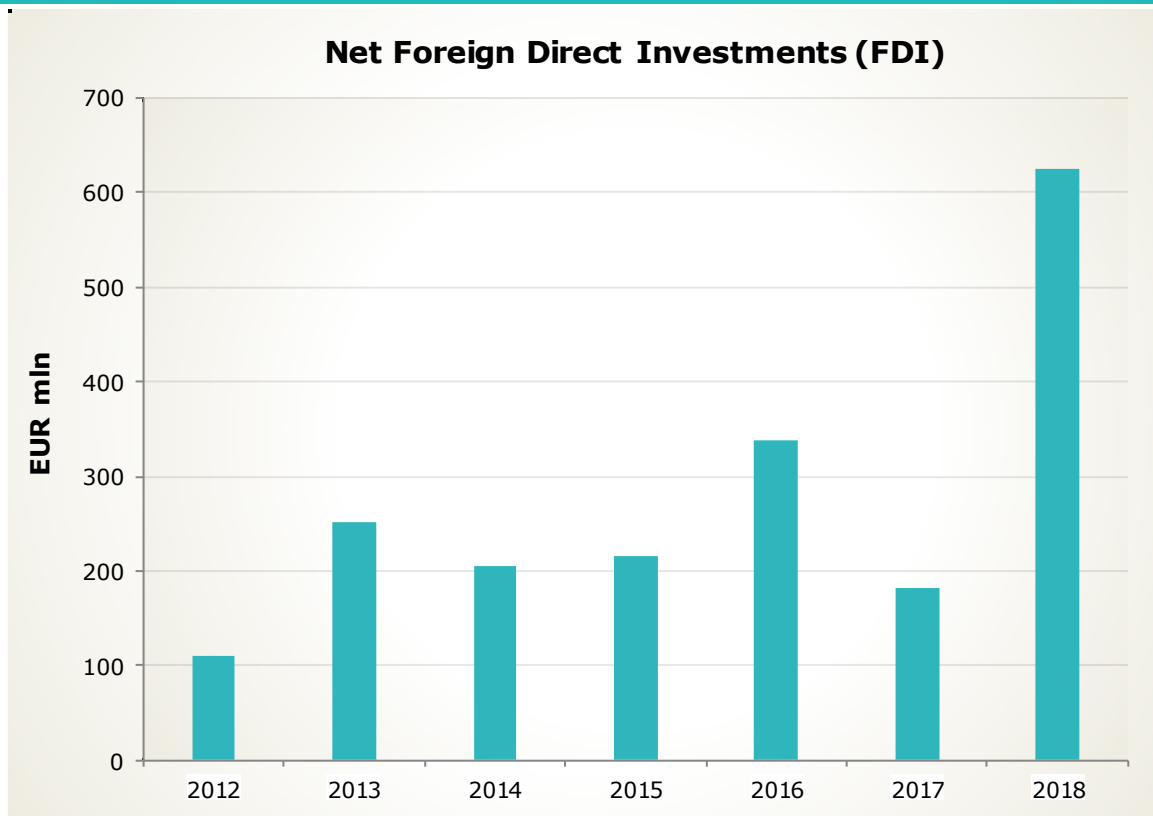
### 7.3. FDI

#### *Net FDI inflow rose almost three times in 2018*

The net FDI inflow in North Macedonia reached EUR 624.5 mln in 2018 compared to EUR 181.7 mln a year earlier, according to NBRM.

For 2018 the leaders in terms of FDI in North Macedonia were the United Kingdom, Germany and Turkey with investments of EUR 113.8 mln, EUR 38.7 mln and EUR 36.2 mln, respectively.

A breakdown by industries showed that the manufacturing attracted the largest FDIs, of EUR 212.3 mln in the year, followed by motor vehicles, trailers and semitrailers with EUR 187.1 mln.



Source: NBRM

## 7.4. FOREIGN TRADE

### *Foreign trade deficit inched down by 0.3% y/y in 2018*

The trade deficit stood at EUR 1.811 bln in 2018, compared to EUR 1.816 bln a year earlier, according to NBRM. Exports increased by 16.8% y/y to EUR 5.861 bln, while imports went up by 12.2% y/y to EUR 7.672 bln.



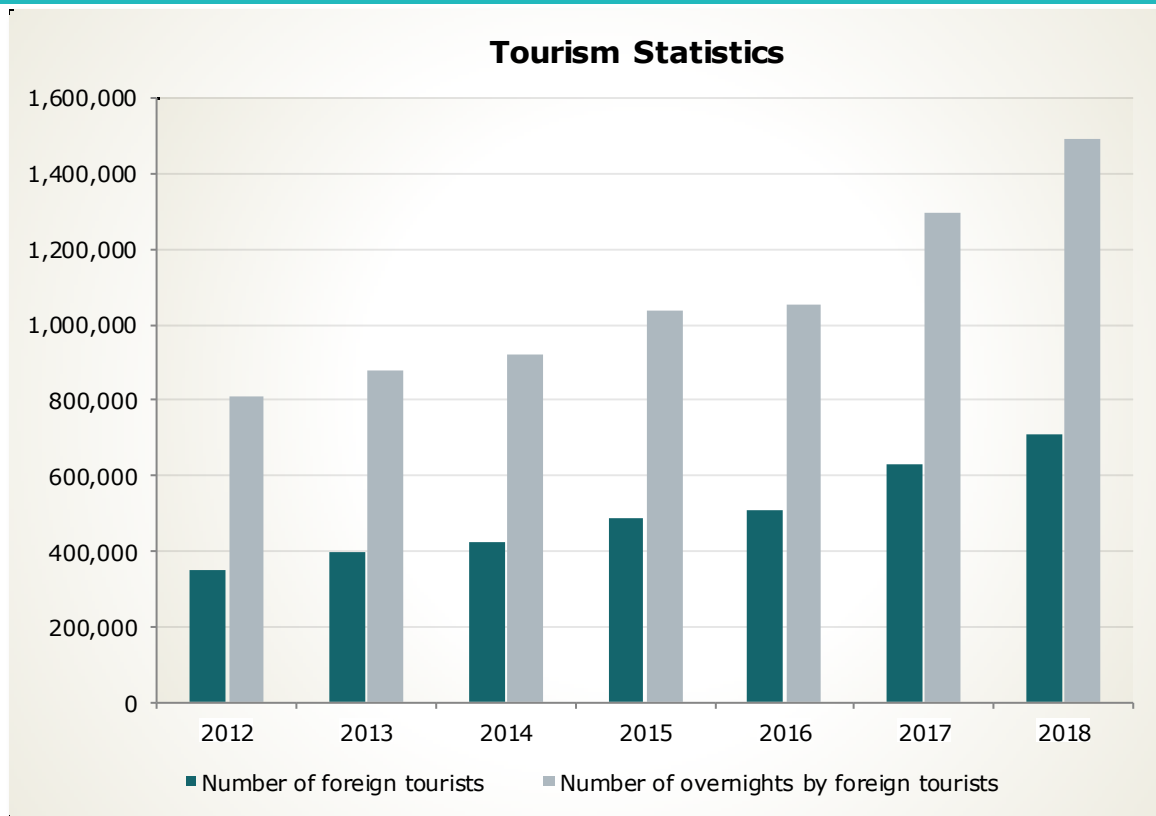
Source: NBRM

## 7.5. TOURISM

### Number of foreign tourist overnights grew by 15.2% y/y in 2018

Tourist overnights of foreigners increased by an annual 15.2% to 1.5 million 2018, according to SSORM. Foreign tourist overnights accounted for 47.0% of the total tourist overnights in the country, up from 46.7% in the previous year.

The number of foreign citizens who visited the country was also on the rise, by 12.2%, to 707,345.



Source: SSORM

## 8. MAJOR DEVELOPMENTS

### **EU grants EUR 68.6 mln to EBRD-financed railway project in North Macedonia**

Dec 14, 2018

The European Union is providing a grant of EUR 68.6 mln to back a project financed by the European Bank for Reconstruction and Development for the modernisation of North Macedonia's railway infrastructure.

[Read the full story here](#)

### **North Macedonia's parliament approves change in country's name as agreed with Greece**

Dec 3, 2018

North Macedonia's parliament has endorsed an amendment to the constitution for changing the name of the former Yugoslav republic to North Macedonia.

[Read the full story here](#)

### **North Macedonia needs to step up fight against money laundering**

Nov 30, 2018

North Macedonia needs to intensify the fight against money laundering and conflicts of interest, the European Parliament said.

[Read the full story here](#)

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**North Macedonia needs to pursue bank consolidation, develop renewables**

Nov 13, 2018

North Macedonia should further develop renewable energy capacity following the introduction of the new energy law, the European Bank for Reconstruction and Development (EBRD) said. [Read the full story here](#)

**EBRD lending EUR 10 mln for public transport upgrade in North Macedonia's Skopje**

Nov 12, 2018

The European Bank for Reconstruction and Development (EBRD) said it has approved a EUR 10 mln loan to Skopje public transport company to upgrade bus services in North Macedonia's capital.

[Read the full story here](#)

**NATO starts formal accession talks with North Macedonia**

Oct 19, 2018

The North Atlantic Treaty Organization (NATO) said it has launched formal accession talks with North Macedonia in Brussels.

[Read the full story here](#)

**Stoltenberg expects North Macedonia to join NATO in 2019 if name deal implemented**

Oct 2, 2018

NATO is ready to welcome North Macedonia as its 30th member state with accession talks expected to be concluded by January next year if the country implements its name deal with Greece, NATO secretary general, Jens Stoltenberg said.

[Read the full story here](#)

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